

**OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE**

**SUMMARY OF  
REPORTS ISSUED AND  
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS  
AND SPECIAL AUDIT/EVALUATION EFFORTS**

**OCTOBER, NOVEMBER, AND DECEMBER 2001**



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<b>Abstract</b> <p>We performed this audit in response to a request from the Director, Joint Staff, to evaluate the management of the Joint Simulation System (JSS). The objective was to evaluate the financial and program management of JSS. The JSS Program Manager has made significant progress toward complying with DoD security and acquisition policies. However, the JSS may not receive security certification and accreditation in time for scheduled initial operating capability. Further, the JSS acquisition program baselines are not complete or accurate and may not be attainable. As a result, there were no assurances that JSS would provide the level of information technology security required by initial operating capability or that the Milestone Decision Authority will be able to make informed investment decisions concerning the acquisition of JSS.</p>		
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# PART I

## REPORT SUMMARIES

### **ACQUISITION PROGRAM**

**REPORT NO. D-2002-005. Management of the Joint Simulation System.** We performed this audit in response to a request from the Director, Joint Staff, to evaluate the management of the Joint Simulation System (JSS). The objective was to evaluate the financial and program management of JSS.

The JSS Program Manager has made significant progress toward complying with DoD security and acquisition policies. However, the JSS may not receive security certification and accreditation in time for scheduled initial operating capability. Further, the JSS acquisition program baselines are not complete or accurate and may not be attainable. As a result, there were no assurances that JSS would provide the level of information technology security required by initial operating capability or that the Milestone Decision Authority will be able to make informed investment decisions concerning the acquisition of JSS.

**REPORT NO. D-2002-011. Acquisition of the Wide Area Munition.** The objective was to evaluate the overall management of the Wide Area Munition program. Because the program was in the engineering and manufacturing development phase, we determined whether management was cost-effectively developing and readying the system for the production phase of the acquisition process. The Wide Area Munition program consists of two versions: the basic Wide Area Munition (Hornet) and the product improvement program (Advanced Hornet).

The Army and the Wide Area Munition Program Manager did not effectively manage the expenditure of \$305 million in RDT&E funds through FY 2001 to ready the Hornet for production and deployment, and to conduct the engineering and manufacturing development phase for the Advanced Hornet. Specifically: the Army and program office supported the continuation of the program even though unit costs had increased by 330 percent and the schedule had slipped by more than 5 years since program inception; the Army allowed changes to the Hornet operational performance requirements below those originally established and acceptable by the user; the Army independent test organization determined that the Hornet was not operationally effective based on test results that showed that the Hornet met only 5 of the 15 operational performance requirements; the Army independent test organization did not perform necessary tests before production and deployment of the Hornet to prove that typical Army users could safely store, transport, handle, and employ the Hornet under realistic conditions, such as effects of battlefield noise, even though the Hornet uses acoustic and seismic sensors to detect targets; the Army did not revalidate the rationale for the continued

development of the Wide Area Munition as the related threat had reduced by more than 80 percent since the program began more than 12 years ago; the program manager did not properly develop and update the test and evaluation master plan and the acquisition strategy to manage the Wide Area Munition program effectively and make informed decisions; and the program manager did not recommend that the Defense Acquisition Executive oversee the Wide Area Munition program as required, even though the program procurement costs will exceed \$3 billion.

As a result, the Army has obligated about \$305 million for a weapon system that, after 12 years of development effort, has yet to demonstrate through developmental testing or a dedicated phase of operational test and evaluation, the ability to satisfy minimum acceptable operational performance requirements. Further, if the program continues, the Army plans to obligate another \$30.7 million to complete development efforts and \$237.6 million in procurement funds through FY 2007. Of the \$237.6 million, the program manager plans to spend \$23.2 million to procure 107 Hornets in excess of the 270 required by the 82nd Airborne Division, the only unit scheduled to receive the Hornet.

**REPORT NO. D-2002-012. Acquisition of the Firefinder (AN/TPQ-47) Radar.** The primary objective was to evaluate the overall management of the Q-47. Because the program was in the engineering and manufacturing development acquisition phase, the audit determined whether management was cost-effectively readying the program for the production phase of the acquisition process.

Overall, the Army was effectively managing the Q-47 engineering and manufacturing development phase and readying the Q-47 for the production phase of the acquisition process. However, the following four areas warrant management attention before the program enters the full-rate production phase of the acquisition process.

- o The Firefinder Product Office did not update its acquisition plan to incorporate its revised acquisition strategy to acquire the Q-47.
- o The Director, Operational Test and Evaluation (DOT&E), did not consistently apply its beyond low-rate initial production reporting requirements.
- o The Firefinder Product Office did not develop an environmental assessment and a programmatic environmental, safety, and occupational health evaluation for the Q-47 to identify environmental safety issues, occupational health requirements, demilitarization and disposal requirements; establish program environmental responsibilities; and compose a methodology to track progress throughout the remainder of the program life-cycle.
- o The Firefinder Product Office did not include environmental costs for pollution prevention, hazardous waste management, demilitarization, disposal, and associated cleanup for the Q-47 at the end of its useful life in its life-cycle cost estimate.

**REPORT NO. D-2002-026. Acquisition of the Vertical Take-Off and Landing Tactical Unmanned Aerial Vehicle.**

The objective was to evaluate the overall management of the Navy Vertical Take-off and Landing Tactical Unmanned Aerial Vehicle (VTUAV). Because the program was in the engineering and manufacturing development phase, we determined whether management was cost-effectively developing and readying the system for the full-rate production phase of the acquisition process.

Overall, the VTUAV Program Office was cost-effectively developing and readying the program for the full-rate production phase. However, three areas warrant management attention before the program enters full-rate production.

- o The VTUAV Program Manager developed a schedule-driven acquisition strategy rather than an event-driven acquisition strategy to achieve a directed initial operational capability date of September 2003 for the system. As a result, the program manager is proceeding with an acquisition strategy that includes high-risk items, which may not be resolved before the scheduled production milestone decision and may require the program manager to add time and funds for research, development, test and evaluation to the budget to complete system development.

- o The Navy had not justified and documented the number of VTUAV systems that were stated as required. Until the Navy validates and documents the procurement requirements, the Navy will not know whether it will be able to fully fund the VTUAV program in the Future Years Defense Program.

- o The VTUAV Program Manager proposed, and the Assistant Secretary of the Navy (Research, Development and Acquisition) approved, exit criteria that were based on minimum program accomplishments specified for each acquisition phase rather than on program-specific accomplishments. As a result, the milestone decision authority will not be able to use program-specific exit criteria in deciding whether the VTUAV should progress within the engineering and manufacturing development phase or continue to the production phase of the acquisition process.

**REPORT NO. D-2002-029. Summary of DoD Purchase Card Program Audit Coverage.**

We prepared this summary report at the request of the Director, Defense Procurement to provide a central repository of purchase card audit report findings and to identify misuse trends and problems.

From FY 1996 through FY 2001, 381 reports were issued on the DoD Purchase Card Program. The GAO issued 3 reports; IG, DoD, issued 3 reports; the Army Audit Agency issued 32 reports; the Naval Audit Service issued 1 report; the Air Force Audit Agency issued 255 reports; the Defense Agencies Inspector General and Internal Review Offices issued 27 reports; and the Army Internal Review Office issued 61 reports. The reports address the following systemic issues: account reconciliation and certification (88 reports), administrative controls (70 reports), management oversight (115 reports), property accountability (79 reports), purchase card use (50 reports), purchases (222 reports), separation of duties (22 reports), and training (52 reports). Because of its dollar magnitude, the purchase card

program is an area requiring continued management emphasis, oversight, and improvement by DoD. Independent internal audits should continue to be an integral component of management controls.

The DoD Purchase Card Program Management Office recognized the need to address management oversight and control issues in a July 25, 2001, memorandum to the Military Departments and Defense Agencies. The memorandum stated that it was imperative to allocate appropriate resources so program officials could perform their duties and requested that organizations conduct an assessment of the policies and guidelines that are in effect. The Director, Defense Procurement, reiterated the essential controls needed to establish and maintain a reliable purchase card program at the activity level in an August 13, 2001, memorandum. On August 14, 2001, the Director, Defense Procurement, requested that IG, DoD, provide central coordination of future purchase card audits. In response, the IG, DoD, established a new audit planning subgroup on purchase cards to provide centralized oversight and monitor the audit work of the DoD audit community. In addition, the DoD Purchase Card Program Management Office requested on October 5, 2001, that the joint fraud detection and prevention program expand its program to formally include purchase card transactions and associated dollars, specifically data mining efforts conducted by IG, DoD, and the Air Force Audit Agency.

**REPORT NO. D-2002-032. Audit of Major Defense Acquisition Programs Cycle Time.**

This is one in a series of reports resulting from our audits of GPRA goals and discusses the DoD GPRA Performance Measure 2.4.2 for FY 2000, Major Defense Acquisition Program (MDAP) Cycle Time. Specifically, we assessed whether the process and factors used to establish the metric goal of MDAP cycle time were valid.

The database used to calculate MDAP acquisition cycle time for inclusion in the FY 2000 Annual Report of the Secretary of Defense to the President and the Congress was not accurate or complete. Of the 48 MDAPs reviewed, data for 28 programs was incorrect. We also identified three programs that were not included in the database. As a result of our findings, USD(AT&L) has contracted for the complete verification and reconciliation of any omissions and inconsistencies in the database. As of December 2001, USD(AT&L) estimated that it will complete the verification and reconciliation of the database by February 2002.

***CONSTRUCTION AND INSTALLATION SUPPORT***

**REPORT NO. D-2002-020. General Officer Quarters at Kaneohe Bay, Hawaii; Camp Pendleton, California; and Albany, Georgia.** This report is one in a series about general and flag officer quarters (GOQ) maintenance and repair costs. Our overall objective was to determine the adequacy of management controls over the review and authorization process of GOQ costs. Specifically, this report focuses on annual operations and maintenance costs for

the GOQs located at Marine Corps Base Hawaii, Kaneohe Bay, Hawaii, (Kaneohe Bay); Marine Corps Base Camp Pendleton, California (Camp Pendleton); and Marine Corps Logistics Base, Albany, Georgia (Albany).

Marine Corps family housing offices at Kaneohe Bay and Camp Pendleton omitted or improperly classified FY 2000 maintenance and repair costs, and exceeded the \$25,000 statutory limitation on annual GOQ maintenance and repair costs for three GOQs. The repair costs exceeded the statutory limitation by \$1,134 and \$2,474 for two GOQs at Kaneohe Bay; and \$8,698 for one GOQ at Camp Pendleton. As a result, the Marine Corps accounting for FY 2000 GOQ costs was understated by \$13,356, and Antideficiency Act violations may have occurred at Kaneohe Bay and Camp Pendleton. Marine Corps family housing officials at Kaneohe Bay and Albany incurred questionable GOQ operations and maintenance costs totaling \$53,081 for FYs 1998 through 2001. As a result, the Marine Corps family housing offices at Kaneohe Bay and Albany lost opportunities to execute higher priority maintenance and repair projects.

## **CONTRACTING OVERSIGHT**

**REPORT NO. D-2002-021. Maintenance and Repair Type Contracts Awarded by the U.S. Army Corps of Engineers Europe.** The audit was requested by DCIS and the U.S. Army Criminal Investigations Command. Our objective was to review the award and administration of maintenance and repair type contracts awarded by the U.S. Army Corps of Engineers, Wiesbaden, Germany.

U.S. Army Corps of Engineers Europe and U.S. Army, Europe Directorates of Public Works personnel did not properly award and administer contracts and task orders for the maintenance and repair of real property in Germany. U.S. Army Corps of Engineers Europe and U.S. Army, Europe Directorates of Public Works did not: adequately control and complete contract documents, properly report on contractor performance, adequately document end of fiscal year task order awards, provide adequate job order contract oversight, report contract actions in a timely and complete manner, and have current standard operating procedures for contracting functions. During the period of FY 1998 through 2000, we identified one or more deficiencies on 174 of the 195 task orders reviewed. As a result, the rights of the Government were not adequately protected, and there was an increased potential for fraud, waste, and mismanagement for about \$50 million in job order contracts and multiple award task order contracts for real property maintenance in Germany.

## **FINANCE AND ACCOUNTING**

**REPORT NO. D-2002-002. Reporting the Cost of Military Personnel Assigned to Defense Agencies.** The primary objective was to determine whether Defense agencies required to prepare financial statements in support of the CFO Act accurately reported the cost of military personnel assigned. We also evaluated applicable guidance for reporting the cost of military personnel and reviewed potential costs to ensure that those costs are properly and consistently reported.

Defense agencies receiving appropriated funds required to prepare annual stand-alone financial statements did not include the cost of military personnel in their financial statements. Also, the FY 2000 financial statements for the Military Departments did not show that unreimbursed costs for military personnel assigned to Defense agencies were included in the reported cost for the Military Departments General Funds. As a result, the cost of military personnel assigned to five Defense agencies required to prepare stand-alone financial statements in FY 2000 was understated by approximately \$144 million. The costs to be reported on the FY 2001 financial statements for the Military Departments could also be overstated by at least \$811 million and understated by the same amount for the Other Defense Organizations-General Funds reporting entity. These amounts do not materially affect the total program costs and financial statements of the Military Departments. However, the financial statements for two of the five Defense agencies reviewed may be materially affected if the cost of military personnel assigned is excluded.

**REPORT NO. D-2002-007. Promptness of FY 2002 First Quarter DoD Payments to the U.S. Treasury for District of Columbia Water and Sewer Services.** This report covers FY 2002 first quarter payments and is one in a series of reports discussing the promptness and completeness of DoD payments to the U.S. Treasury for District of Columbia water and sewer services.

DoD Components did not make first quarter FY 2002 payments to the U.S. Treasury for District of Columbia water and sewer services on the first day of the fiscal year. Consequently, the U.S. Treasury withdrew \$1 million available to the Army and Defense Components to pay the District of Columbia. Payments were not withdrawn from the Navy and Air Force Components because of credit balances from prior overpayments; or from Arlington National Cemetery's appropriation because of Public Law 107-20. Army officials dispute the appropriateness of the \$77,000 the U.S. Treasury withdrew for FY 2002 first quarter water and sewer services for Fort Myer. Fort Meyer has been receiving its water from Arlington County for 2 years.



**REPORT NO. D-2002-009. Valuation of Inventories in the Defense Logistics Agency Standard Automated Materiel Management System.** The objective was to determine whether the values assigned to inventories (that DLA managed in SAMMS) were accurately computed in accordance with generally accepted accounting principles and were supported by contract data.

The values assigned to inventories in SAMMS were not always accurate. In addition, a significant portion of the inventory value was not supported by contract data. Using the DLA Inventory Valuation Statistical Sampling Plan to assess the \$9.1 billion inventory value that DLA reported in SAMMS at the end of FY 1999, we estimated that \$2.5 billion was fully supported by obligation history records that could be verified to original contract files. Another \$398 million was inaccurately valued. Additionally, \$476 million was not supported by obligation history records or contract files, and \$5.7 billion was supported by obligation history records that could not be verified to original contract files.

Projecting the net dollar impact of acquisition cost and quantity errors showed that the \$9.1 billion DLA inventory book value was materially misstated. We found no evidence that the conditions leading to the inaccurate and unsupported acquisition costs improved in FY 2000. The deficiencies leading to the inaccurate and unsupported acquisition costs were not corrected and fully disclosed. As a result, the values of the inventory items maintained in the DLA SAMMS cannot be relied on to support the inventory amount on future DLA financial statements or to support the prices charged to customers. Correction of the inaccurate values assigned to the DLA inventory will result in a potential monetary benefit to DLA customers for on-hand inventories expected to be sold during the 6-year Future Years Defense Program. We estimate that approximately \$65.9 million of funds can be put to better use when the standard (sales) prices are reduced for the affected items. The full extent of the monetary benefits will be quantifiable after the DLA inventory control points correct all inaccurate acquisition costs.

**REPORT NO. D-2002-017. Advanced Sensor Applications Program Joint Project.** We performed the audit in cooperation with the Inspector General, Department of Commerce (IG, DoC), and DCIS. The IG, DoC, received an allegation concerning potential misappropriation of DoD funds by the Environmental Technology Laboratory, National Oceanic and Atmospheric Administration (NOAA), located in Boulder, Colorado. The allegation was that the Laboratory charged the Advanced Sensor Applications Program Joint Project for costs applicable to other programs. The objective was to determine whether DoD funds provided to the Laboratory were spent in accordance with program objectives and the June 8, 1993, Memorandum of Understanding between the Intelligence Systems Support Office, ASD(C<sup>3</sup>I) and the Laboratory.

We substantiated the allegation of mischarging DoD funds by the Laboratory. During FYs 1998, 1999, and 2000 the Laboratory mischarged \$1.6 million to the Advanced Sensor Applications Program Joint Project for costs that were either not applicable to the project or were not supported. Of that amount, \$402,547 was charged for labor costs, \$677,232 was charged for other costs, and \$532,191 was charged for costs of research grants not connected

with the Advanced Sensor Applications Program. As a result, DoD paid for costs incurred by the Laboratory with no assurance that the charges benefited the Advanced Sensor Applications Program.

**REPORT NO. D-2002-019. Checks Issued Differences for Deactivated Disbursing**

**Stations.** This is the sixth in a series of audits on the Fund Balance With Treasury account performed in response to the CFO Act of 1990. The overall objective was to assess controls over the collections and disbursements reported to DFAS centers and the Department of Treasury. This report focused on the objective as it applies to the reconciliation of checks issued differences by DoD settlement offices after disbursing station deactivation.

DoD settlement offices did not reconcile checks issued differences after disbursing station deactivation. As of February 28, 2001, there were \$408.4 million in unreconciled checks issued differences assumed from 66 deactivated disbursing stations. By FY 2005, the deactivation of an additional 14 disbursing stations will result in an additional \$73 million in unreconciled checks differences. Until the differences are reconciled, the Department of Treasury will continue to report differences for checks issued every month and will be unable to officially close DoD deactivated disbursing stations.

**REPORT NO. D-2002-027. Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System.**

The overall objective was to evaluate actions to close out completed contracts and transition from the MOCAS system to its successor, the Defense Procurement Payment System. We focused this part of the audit on the actions to close out overage contracts.

DoD made progress and closed about 30,393 overage contracts from February 2000 to March 2001. However, another 26,610 contracts became overage during that period. Based on the closure rate overage contracts achieved during the February 2000 to March 2001 period, we estimate that it will take at least 6 years for DoD to close all remaining overage contracts. To accelerate the closure of contracts, additional actions were needed. Our sample of 80 contracts showed that there were weaknesses in the closure process, including inadequate monitoring of contracts that could be closed, inattention to closure requirements, erroneous data about contracts available for closure, lack of coordination, lack of sufficient funding, a shortage of personnel, and untimely contractor input. Unless improvements are made and additional resources applied, DoD will have a significant number of overage contracts when it begins the transition to a new payment system.

***HEALTH CARE AND MORALE***

**REPORT NO. D2002-010. Armed Services Blood Program Defense Blood Standard**

**System.** This report is the second in a series regarding the Armed Services Blood Program. The overall objective was to determine whether the management and administration of the

Armed Services Blood Program was adequate to ensure quality blood products were properly handled and controlled during peacetime and wartime. This report addresses the automated information systems supporting the Armed Services Blood Program.

Implementation of the Defense Blood Standard System (DBSS) was not adequate to meet all user and mission needs of the Armed Services Blood Program. DBSS did not provide the elements necessary to fully support blood program operations. As a result, use of DBSS could adversely affect asset accountability, increase the workload at Blood Program Organizations, increase the risk of blood inventory errors, and could possibly result in the inappropriate release of blood products. The deployment and use of DBSS was not consistent throughout DoD. Two different versions of DBSS were in operation simultaneously. The interface to the Composite Health Care System was only being used at 46 percent of the fixed facilities, and only 54 percent of the Theater DBSS laptops were ready for use. In addition, reporting to the Joint Medical Asset Repository through DBSS and Theater DBSS was not complete. As a result, standardized blood product management was not achieved, workload for Blood Program Offices and Organizations increased, and DoD might not achieve total asset visibility of blood products

The OASD (Health Affairs) took action to correct several problems identified by our audit. In March, personnel reviewed most of the outstanding system requests. Three of the five original requirements have been funded for development beginning in FY 2002. A new contract was awarded in June 2001 to provide support services to users of Military Health Service systems, including DBSS. In addition, a survey will be prepared to identify reports that could be beneficial to all DBSS users. The DBSS Project Office modified the standard operating procedure regarding review of system requests to include the requirement for impact analyses, and readiness representation was added to the review committee. Additionally, the DBSS Project Office began preparing quarterly performance review reports of technical support.

**REPORT NO. D-2002-034. Military Health System Optimization Plan.** The objective was to evaluate the Military Health System Optimization Plan and the distribution and sharing of health care resources in catchment areas, in medical regions, and among Military Departments.

The Optimization Plan was focused at the military treatment facility level and may not meet its stated objectives. In addition, the Military Departments have not consistently implemented the Optimization Plan. Without a Military Health System-wide approach to personnel allocation, maximum efficiency and productivity of medical personnel during peacetime may not be achieved.

## **INFORMATION TECHNOLOGY RESOURCES**

**REPORT NO. D2002-008. Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City.** This is the first in a series of audit reports addressing the controls over the Computerized Accounts Payable System (CAPS). Our objective was to evaluate the controls associated with making payments using CAPS and progress in transitioning to the Defense Procurement Payment System. This report focuses on the controls associated with making vendor payments.

DFAS Kansas City took actions to systematically segregate access within CAPS for Windows. However, two systems management personnel had unrestricted access to CAPS for Windows and other system users performed functions that required further segregation. When coupled with other system deficiencies and control weaknesses, CAPS for Windows was vulnerable to improper and unauthorized use. DFAS Kansas City made 17,983 payments from May 1 through July 31, 2000, and approximately 16,605 of these payments did not meet all the documentation or other requirements imposed by OMB regulations implementing the Prompt Payment Act. The fact that a payment was not supported did not mean that the payment was invalid or fraudulent, but indicated management's failure to enforce the requirements necessary for proper support. As a result, DFAS and Marine Corps managers assumed an increased risk that payments were not being made in compliance with the Prompt Payment Act and that improper payments may have been made. The structure and business practices of the vendor payment office at DFAS Kansas City did not provide efficient and effective controls over vendor payments. As a result, DFAS Kansas City did not ensure that improperly supported and erroneous payments would be detected and corrected before payment.

**REPORT NO. D-2002-014. Development of the Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems.** This audit is the second in a series of reports on the DFAS Corporate Database (DCD). The overall objective was to review the development of DCD and its impact on entitlement, disbursing, and accounting functions. Because DFAS intended DCD to standardize financial data and minimize changes to existing financial management and feeder systems, we reviewed the development of DCD and other financial management systems.

DoD financial management systems are not integrated and cannot share data without expensive and inefficient crosswalks. Crosswalks translate information so that systems with different data formats can communicate and share information. However, DoD continues to develop DCD and other financial management systems, which will not establish an integrated financial management system. Specifically: DLA stated its \$1 billion supply chain management system could not work with DCD and other standard systems; the Army and Navy did not determine whether their \$975 million financial management systems could work with DCD and other standard systems; and DFAS Denver personnel want to develop a \$16 million Air Force-specific financial management system to replace DCD. As a result, DoD Components are spending more than \$2 billion to develop systems with no assurance that

the financial portions of the systems will function as an integrated financial management system. Also, the lack of an integrated financial management system may prolong DoD's inability to develop auditable financial statements.

**REPORT NO. D-2002-018. Development and Implementation of Wide Area Workflow-Receipts and Acceptance.** The overall objective was to evaluate the adequacy of the development and implementation of the WAWF-RA application. An additional objective was to determine whether the WAWF-RA application was compliant with national and DoD security requirements. Because of the status of the WAWF-RA development and implementation, we did not review compliance with security requirements.

After 3 years and \$8.4 million expended, the Defense Electronic Business Program Office, formerly called the Joint Electronic Commerce Program Office, initiative of the WAWF-RA has realized limited acceptance and use. As a result, WAWF-RA has not been effective in providing a DoD-wide solution for receipts and acceptance in the end-to-end procurement process. Also, WAWF-RA has not met the goals of the FY 2001 Authorization Act to implement a means for electronic processing of contractor bills by October 2002.

**REPORT NO D-2002-030. Implementation of DoD Public Key Infrastructure Policy and Procedures.** The overall objective was to evaluate the implementation and management of Public Key Infrastructure within DoD. Specifically, we evaluated DoD oversight of Public Key Infrastructure, coordination of Public Key Infrastructure missions and pilot programs among the Services and DoD agencies, and compliance with the Clinger-Cohen Act.

Although some progress had been made in implementing Public Key Infrastructure, DoD had not managed the DoD Public Key Infrastructure Program as an enterprise-wide information technology investment. As a result, DoD will not be able to adequately assess cost, performance, and schedule risks to Public Key Infrastructure implementation and use those assessments to determine whether the Public Key Infrastructure Program is cost-effectively meeting security requirements and user needs.

## ***LOGISTICS***

**REPORT NO. D-2002-003. Accountability and Control of Materiel at the Tobyhanna Army Depot.** This is the first in a series of reports being issued by IG, DoD, that discusses accountability and control of materiel at DoD maintenance depots. Our overall objective was to evaluate the effectiveness of policies and procedures that were used to account for and control materiel used by the Tobyhanna Army Depot located at Tobyhanna, Pennsylvania.

The Depot maintained materiel that exceeded requirements. Also, significant levels of inventory were not on accountable records. As a result, the Depot could have \$23.5 million of materiel that was in excess of requirements. Further, 595 pallets of materiel transferred from

the Sacramento Air Logistics Center and 96 boxes of computer equipment were unpriced and not included in the value of materiel onhand. Storage of large quantities of unused materiel makes maintenance inventories difficult to manage.

The Depot did not effectively manage or control materiel stored in the Automated Storage and Retrieval System (ASRS). In addition, the Communications-Electronics Command has neither issued policies or guidance regarding management of maintenance materiel at the Depot nor required the Depot to submit reports for management review. As a result, inventory records at the Depot had an estimated count error rate at about 10.1 percent of the storage locations; materiel may become lost, obsolete, stolen, or unserviceable; and proper management decisions over the use of materiel have been hampered. Further, the lack of effective management controls at the Depot contributed to inventories that were stored for an excessive period of time and lack of accurate inventory valuations.

**REPORT NO. D-2002-004. Import Processing of DoD Cargo Arriving in the Republic of Korea.** This is the second in a series of reports being issued by IG, DoD, to address the effectiveness of the DoD supply and distribution system. The DUSD (Supply Chain Integration) expressed concern about whether the supply and distribution system was effective in delivering cargo to customers overseas. This report discusses import processing by U.S. Forces Korea of DoD cargo arriving in the Republic of Korea.

DoD cargo arriving into Kimpo International Airport with commercial bills of lading during a recent 30-day period averaged more than 4 days for import processing. For 784 customs forms, 674 (86 percent) exceeded Uniform Materiel Movement and Issue Priority System delivery requirements by as much as 34 days. Further, for 16 of the 22 customs forms for cargo arriving in the Port of Pusan with commercial bills of lading between February and December 2000, import processing time exceeded Uniform Materiel Movement and Issue Priority System requirements by as much as 176 days. As a result, import processing time unnecessarily delayed delivery of DoD cargo valued at more than \$4.1 million to U.S. Forces Korea customers. In addition, import processing time exceeded the Uniform Materiel Movement and Issue Priority System requirements for both processing inbound cargo at a port of debarkation and in-transit shipment to the consignee. Further, U.S. Forces Korea and Defense contractor personnel may have unnecessarily expended resources by driving to Kimpo International Airport to deliver customs clearance documentation, picking up cargo, and incurring customs storage charges.

**REPORT NO. D-2002-013. The Defense Supply Center Richmond Qualified Products List Program.** Our objective was to evaluate the DSC Quality Assurance Programs. Specifically, we evaluated the effectiveness of the DSC Richmond Qualified Products List Program.

An effective product qualification process was not realized at DSC Richmond. DSC Richmond could not conduct facility audits, adequately maintain the QPL Program's list of Government designation status and qualified manufacturers (and authorized distributors), or



monitor QPL-related product deficiencies. As a result, the Government could not obtain the benefits of the QPL Program, and the users were at a higher risk of receiving nonconforming products.

**REPORT NO. D-2002-016. Government Performance and Results Act Performance Measure for DoD Total Asset Visibility.** This is the first of two audit reports addressing asset visibility. The overall objective was to evaluate the effectiveness of the DoD Total Asset Visibility Program. Specifically, the audit evaluated the performance measure for DoD Total Asset Visibility.

The DoD Total Asset Visibility performance data reported by the Secretary of Defense in the FY 2001 “Annual Report to the President and Congress” was incomplete and inconsistent. We estimate that assets targeted for visibility should be approximately \$198.8 billion rather than the \$95.5 billion reported under the DoD Total Asset Visibility performance measure. Several categories of assets, including principal end items and bulk fuel, were excluded from the DoD Total Asset Visibility performance measure. In addition, the reported asset data relied on supply systems whose accuracy was questioned in numerous audit reports over the past 5 years. As a result, the DoD Total Asset Visibility measure reported was not a reliable indicator of total asset visibility.

**REPORT NO. D-2002-025. Allegations Concerning Defense Reutilization and Marketing Service Business Practices.** We performed this audit in response to a congressional request from Senator John Warner. The request was based on several allegations the senator’s office received concerning the operations of the Defense Reutilization and Marketing Service (DRMS) in regard to the disposal of excess material. The overall objective was to review the allegations, which addressed DRMS costs to transport items to regional centers for demilitarization and the impact on small businesses of changes in DRMS operations for selling excess property and scrap.

The allegations were not substantiated. DRMS made a decision to centralize demilitarization operations to add necessary controls for national security purposes and public safety over the sale of items that require demilitarization. Additional transportation costs were incurred, but the changes in the demilitarization process did provide some economies in the overall operations. DRMS changed the manner in which it sells excess material as part of an implementation plan to improve business practices that did not adversely impact small businesses. The sale of wall lockers as scrap material by DRMS was appropriate because the sale of the lockers as usable surplus material would have resulted in costs that exceeded anticipated proceeds. The contractual requirement for the contractor to provide containers for the removal of scrap material and the DRMS decision to sell the entire batch of scrap material to a single contractor instead of breaking it up into parcels were not barriers to small business participation and small businesses were awarded the contracts.

## **OTHER**

**REPORT NO. D-2002-033. Management Costs Associated With the Defense Enterprise Fund.** This report was issued to provide lessons learned for managing enterprise funds. In June 1994, DoD established the Defense Enterprise Fund to assist countries from the former Soviet Union in the privatization of defense industries and conversion of military technologies and capabilities for civilian use. Our overall objective was to evaluate how the Defense Enterprise Fund and its fund manager, Global Partner Ventures, LLC, used grant funds for managing the grant. In addition, we evaluated whether the terms of the grant provided to the Defense Enterprise Fund were consistent with grants awarded to enterprise funds established under the Support for East European Democracy Act of 1989.

Through FY 2000, the Defense Enterprise Fund and Global Partner Ventures, LLC, used at least \$35.6 million of grant funds and income from grant funds for management costs and expenses in conformance with the grant agreement. That amount included \$32.4 million expended by the Defense Enterprise Fund and Global Partner Ventures, LLC, between FY 1994 and FY 1999, the period covered by our review. As required by National Defense Authorization Act for fiscal year 1994, the terms of the grant to the Defense Enterprise Fund were generally consistent with the terms of grants awarded under the Support for East European Democracy Act of 1989. As a lesson learned, had statutory authority allowed DoD to incorporate cost principles for Federal grants into the grant agreement, the grants officer could have determined management costs and expenses totaling at least \$2.2 million to be unallocable, unallowable, or unreasonable. The Defense Enterprise Fund subsequently awarded a firm-fixed-price contract in October 1999, valued at \$2 million a year, to manage its investments.



## **PART II**

### **PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS**

#### **Summary of the Office of Assistant Inspector General-Audit Participation on Management Advisory Teams**

(Area Code 703 unless otherwise indicated)

Acquisition Deskbook Working Group (JOHN MELING, 604-9091)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Acquisition Initiatives Senior Steering Group (TOM GIMBLE, 604-8903)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Anti Terrorism Senior Steering Coordinating Committee (MAJ DAN SNY, 604-9190)

*Lead Component: ASD SOLIC JCS J-3*

Defense Chief Information Officer Executive Board (WANDA SCOTT, 604-9049)

*Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)*

Defense Environmental Safety and Occupational Health Policy Board

(BILL GALLAGHER, 604-9270)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

DoD Electronic Business Fraud Vulnerability Assessment Group (KENT SHAW, 604-9228)

*Lead Component: Defense Criminal Investigative Service*

Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Federal Financial Management Act Executive Working Group (PAUL GRANETTO, 604-9101)

*Lead Component: Under Secretary of Defense (Comptroller)*

Government Information Security Reform Act Information Assurance IPT

(WANDA SCOTT, 604-9049)

*Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)*

Inherently Governmental Integrated Process Team, DoD A-76 Overarching Policy IPT

(GERRY STEPHENSON, 604-9201)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense for Personnel and Readiness*

Joint Contracting Pilot Program (TILGHMAN SCHRADEN, 604-9186)

*Lead Component: Navy Inventory Control Point*

Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance

Relationship (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA*

Rapid Improvement Team to Develop a DLA/Honeywell Strategic Alliance Relationship

(HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA*

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)*

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Single Process Initiative Management Team (EUGENE KISSNER, 604-9323)

*Lead Component: Defense Contract Management Agency*

Task Force on International Agreements (DONALD BLOOMER, 604-8863)

*Lead Component: Assistant Secretary of Defense (International Security Affairs)*

## **Summary of the Office of Assistant Inspector General-Audit Participation in Special Audit/Evaluation Efforts**

### **Audit Committees:**

- Defense Advanced Research Projects Agency (LEON PEEK, 604-9587)
- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- Missile Defense Agency (DAVE VINCENT, 604-9109)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee  
(LAURA RAINEY, 604-8741)

Federal Audit Clearinghouse User Group (LAURA RAINEY, 604-8741)

### **Federal Audit Executive Council Multi-Agency Working Groups:**

- Electronic Business (KENT SHAW, 604-9228)
- Government Wide Financial Statements (RICHARD BIRD, 604-9102)
- Peer Review Guidance Update (DENNIS PAYNE, 604-8907)

### **Joint Audit Planning Groups:**

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (WAYNE MILLION, 604-9312)
- Contractor Oversight (RICHARD JOLLIFFE, 604-9202)
- Quality Assurance Planning Group (RICHARD JOLLIFFE, 604-9202)
- Purchase Card Planning Group (JOE DOYLE, 604-9349)
- Environment (BILL GALLAGHER, 604-9270)
- Finance and Accounting (PAUL GRANETTO, 604-9101)
- Health Care and Morale (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA SCOTT, 604-9049)
- Intelligence (CHARLES SANTONI, 604-9051)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

Single Audit “Orange Book” Update Project Team (LAURA RAINEY, 604-8741)